

Livelihood vulnerability to shocks, behaviour and investment in education

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ADDENDUM ON VALORIZATION

Economists have historically focused on the analysis of the roles played by external incentives in economic decision. The discourse on development policy formulation has also been heavily influenced by this notion. However, the effectiveness of resource-based development approaches in bringing about sustainable livelihood improvement in the developing world has been mixed at best. Despite considerable resource transfer to the poor, and investment in social services and infrastructure in developing countries, improvement in long-term economic outcomes such as human capital formation, innovation, entrepreneurship, and technology adoption is limited. Even poverty is still pervasive in this part of the world. Although underdevelopment in the south can be attributed to various factors, it has been recently argued that internal behavioural constraints, such as high risk-aversion, impatience and aspiration failure might be contributing to the persistence of poverty in this region. Therefore discussion of the causes and consequences risk-aversion and aspiration/ambition is of substantial social relevance.

This thesis mainly focuses on the causes and consequences of dynamics of individual or group risk-attitude, and aspiration/ambition with a special focus on low income countries. Risk and uncertainty is pervasive in the day-to-day decisions of human beings. Several decisions including, choices about the levels of investment in human and physical capital, occupational choice, entering contracts, innovation, technology adoption, starting new business, etc involve considerable risk and uncertainty. The level of risk and uncertainty pertaining to a choice problem influences the outcome of the choice: risk and uncertainty reduces the desirability of lucrative choices. It has been conjectured in economics that the poor are so because are too risk-averse and impatient. There is also evidence that low technology adoption in developing countries is partly attributable to high level of farmer-risk aversion.

Individual ambition and aspiration for better welfare achievement, a concept closely related to risk attitude but relatively new to economics, is another topic extensively covered in this thesis. The level of individual ambition in turn is determined by the constellations of aspirations frustrations. The amount of investment that individuals make in the future depends on their level of aspirations compared to their current welfare. People with high aspirations compared to their current welfare, would make more long-term investment compared to less aspiring individuals, other things being

equal. Therefore, exposition of the drivers of aspiration level dynamics across socio-economic groups and their economic consequences is incredibly relevant for understanding and mitigating sources of underdevelopment in less developed countries.

Presently, there is little insight of how policy can tackle the problems posed by internal behavioural constraints in developing countries. In this regard, the studies in this thesis provide valuable insights and lessons. The findings in chapters three and five show that expansion of access to market and designing welfare programmes as cost-sharing schemes reduces risk-aversion. The results in chapter three also show that exposure to information about inspiring success stories, capability building, income redistribution and advocacy works would raise aspiration/ambition and reduce risk-aversion. Furthermore, the results in chapters five and six show that redesigning welfare programmes as cost-sharing instead of the state-of-the-art lump sum cash grant schemes and informing parents about the good academic performance of students would increase household investment in child education.

The main target groups of this research consist of policy makers, local government units, schools, NGOs in developing countries, bilateral and multi-lateral development and aid organizations interested in welfare improvement in developing countries. The literature reviews in chapters five and six of the thesis also would help parents understand that home-based investments can improve the cognitive skills of children. Schools can also students learning skills by closely working with parents and providing them with timely information about the scholastic performance of their children. The findings in chapters 4, 5 and 6 provide policy makers with valuable information about design of development policy. Parents can shape and influence the behaviour of their children through their actions rather than mere oral advice. The findings on the relative effectiveness of alternative social welfare designs on long-term development outcomes, such as child learning outcomes should be of interest to policy makers, development financiers and practitioners working to improve educational quality in low income countries.

Given that the great deal of the thesis is dedicated for causes of heterogeneity of risk attitude and its economic consequence, the results may also be relevant to financial service and technology providers in low income countries. The results in this thesis may help banks and technology providers to diversify their products so as to meet the heterogeneous risk-attitude of their customers depending on their socioeconomic condition.

The results of the studies in this thesis can lead to some actions and services. They can be reprinted in non-academic publications such as policy briefs, newsletters and as expert views on newspapers or magazines. In the long-run, the results may influence development policy debates and would result in new intervention strategies. They may also lead to new financial products and marketing strategies by financial institutions and technology providers. Yet, immediately marketable products, like patent rights, software and commodities are not relevant for the study.

The main innovation of the thesis lies in its analytical approach: it combines established concepts and empirical regularities from different strands of literature to develop new insights that would enhance our understanding of the dynamics of behavioural attributes that influence economic decision. Drawing on this innovative analytical approach, the thesis provides new answers to some long-standing questions regarding the nature and role of behavioural attributes in economic decision. These questions include the following. What makes the reference point in reference-dependent decision making under risk? Are risk preferences malleable or fixed? Why lump sum cash grants fail to improve child cognitive skills although they increase school enrolment? What causes heterogeneity of risk preferences across socioeconomic groups? How parental risk preferences and aspiration affect investment in child education? All these questions are, partly, answered in this thesis albeit doing so has been challenging in the economics discipline. Proper dissemination and communication of the new insights proposed in the thesis may induce demand for further research in the area, and may ultimately lead to modifications of existing development policy and intervention strategies in low income countries.

The results of the studies in this thesis will be disseminated to non-academic users through several mechanisms. One of the mechanisms is through presentations in conferences where policy makers and development practitioners will attend. In this regard, chapter five of the thesis is presented at the 2018 PEGNet conference in Cotonou, Benin. The conference was attended, among others, by delegates of ministries of some African Countries, ILO, UNICEF, African Research Consortium and Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ). The results will further reach more target groups through presentation in relevant conferences and workshops, consultancy services and non-academic publications. Moreover, the data collected and used for the study will be available on the internet for interested users once the studies are published as journal articles or working papers.